

Infosys Technologies LimitedCMP Rs. 2,587.0
HOLDResult Update
Q3FY10

Infosys reported a subdued quarter with YoY topline showing a decline of ~1% and a bottomline decline of ~4%. This might be an expected result till the IT budgets get decided in the 4th Quarter. Although this isn't an alarming decline, it shows that a well diversified business can also show signs of decline in light of an uncertain outlook. One laudable thing about the business is its operating margin, which at 35.5% is 1% higher than last year. In spite of a slightly bad quarter (in absolute terms) the nature of the contracts entered have improved their margins. This is on the backdrop of a weak dollar, but other cost efficiencies coupled with stable pricing have contributed to the margin improvement.

The company is venturing into new geographies, by setting up its base in New Zealand. This signals the need to sustain good growth by not leaving any opportunity unexplored. With the new post crisis fervor for cost efficiencies, it is a favorable time for IT companies to seek deals across previously unexplored geographies.

This quarter signifies the return of BFSI and US revenue stream. The company has won 12 deals for their product business. This is a good sign since the banking product business ensures long term contracts and banks seem willing to spend on such engagements. Most of the engagements were on account of filling up the backlog for the previous quarters. This is a good sign as clients have still been retained.

With almost \$ 3 Bn in cash and cash equivalents, Infosys appears to be in a very favorable acquisition stance. Although, with valuations going up, opportunities might dry up pretty quickly. Also owing to their diversified nature, it becomes imperative that the acquisition doesn't tip their portfolio balance into any particular direction. The management still longs for a strategic fit, which is a good sign but since the cash yields effectively 5.5% annually, the same could be deployed for better returns elsewhere.

Hiring seems to be back on track, anticipating a good order book for the years ahead with an addition of ~4,500 this quarter. They anticipate an addition of 6,000 more employees next quarter. Campus recruitment has begun already, which is a good sign of more business flowing in.

During the concall, the management mentioned that the client budgets will remain flat. This seems more like an expected recovery hangover where discretionary spends might be made with caution. Although another plus is that all their subsidiaries have become profitable which also help the margin. Their hedging strategy remains same, as they hedge for the next two quarters.

Valuation

Infy trades at a PE of 23 times (TTM). Although the growth expected in the future seems apparent, the probability of this outcome being already discounted in the price, is very high. Probably what isn't discounted, looking at their huge cash reserves is how long can Infosys sustain their competitive advantage without acquiring and retaining innovative businesslines which don't focus on employee linked growth?

Recently the CEO Mr. Gopalkrishnan has increased his holding by 4,00,000 shares. This is very peculiar at such a valuation since it is usually a very good sign when senior management increase their ownership in the company.

We recommend a HOLD for Infosys.

Infosys: Quarterly Financials

Earnings Statement								
YE March (Rs. Crs.)	Q3FY10	Q2FY10	Q-Q(%)	Q3FY09	Y-Y(%)	FY09	FY08	Y-Y(%)
Net Revenues	5,741.0	5,585.0	2.79%	5,786.0	-0.78%	21,693.0	16,692.0	29.96%
Direct Expenses	3,009.0	2,963.0	1.55%	3,075.0	-2.15%	11,765.0	9,207.0	27.78%
Gross Profit	2,732.0	2,622.0	4.20%	2,711.0	0.77%	9,928.0	7,485.0	32.64%
Selling & Marketing expenses	314.0	261.0	20.31%	274.0	14.60%	1,104.0	916.0	20.52%
General & Admin Expenses	380.0	413.0	-7.99%	406.0	-6.40%	1,629.0	1,331.0	22.39%
Total Expenditure	3,703.0	3,637.0	1.81%	3,755.0	-1.38%	14,498.0	11,454.0	26.58%
Operating Profit	2,038.0	1,948.0	4.62%	2,031.0	0.34%	7,195.0	5,238.0	37.36%
OPM (%)	35.50%	34.88%	1.78%	35.10%	1.13%	33.17%	31.38%	5.69%
Other Income	230.0	236.0	-2.54%	38.0	505.26%	473.0	704.0	-32.81%
EBITDA	2,268.0	2,184.0	3.85%	2,069.0	9.62%	7,668.0	5,942.0	29.05%
Depreciation	231.0	232.0	-0.43%	187.0	23.53%	761.0	598.0	27.26%
EBIT	2,037.0	1,952.0	4.35%	1,882.0	8.24%	6,907.0	5,344.0	29.25%
Interest	0.0	0.0		0.0		0.0	0.0	
PBT	2,037.0	1,952.0	4.35%	1,882.0	8.24%	6,907.0	5,344.0	29.25%
Tax	455.0	397.0	14.61%	241.0	88.80%	1,027.0	806.0	27.42%
PAT Before MI	1,582.0	1,555.0	1.74%	1,641.0	-3.60%	5,880.0	4,538.0	29.57%
Minority Interest	0.0	0.0		0.0		0.0	0.0	
PAT	1,582.0	1,555.0	1.74%	1,641.0	-3.60%	5,880.0	4,538.0	29.57%
EPS (Rs)	27.7	26.8	3.36%	28.7	-3.48%	104.4	79.3	31.63%
Ratio Analysis								
YE March	Q3FY10	Q2FY10	Q-Q(bps)	Q3FY09	Y-Y(bps)	FY09	FY08	Y-Y(bps)
OPM (%)	35.50%	34.88%	62.0	35.10%	(22.3)	33.17%	31.38%	178.7
EBITDA (%)	39.51%	39.10%	40.1	35.76%	334.6	35.35%	35.60%	(25.0)
PBIT (%)	35.48%	34.95%	53.1	32.53%	242.4	31.84%	32.02%	(17.6)
PAT (%)	27.56%	27.84%	(28.6)	28.36%	(51.9)	27.11%	27.19%	(8.1)
Tax Rate (%)	22.34%	20.34%	199.9	12.81%	753.3	14.87%	15.08%	(21.3)

Infosys: Financials

Earnings Statement				
YE March (Rs. Crs.)	FY06	FY07	FY08	FY09
Net Sales	9,521.0	13,893.0	16,692.0	21,693.0
Software Dvlp. Expenses	5,066.0	7,458.0	9,207.0	11,765.0
Gross Profit	4,455.0	6,435.0	7,485.0	9,928.0
Total Expenditure	6,431.0	9,502.0	11,454.0	14,498.0
Operating Profit	3,090.0	4,391.0	5,238.0	7,195.0
Other Income	139.0	370.0	704.0	473.0
EBITDA	3,229.0	4,761.0	5,942.0	7,668.0
Depreciation	437.0	514.0	598.0	761.0
EBIT	2,792.0	4,247.0	5,344.0	6,907.0
Interest	-	-	-	-
PBT	2,792.0	4,247.0	5,344.0	6,907.0
Tax	313.0	386.0	806.0	1,027.0
PAT	2,458.0	3,856.0	4,659.0	5,988.0

Balance Sheet				
YE March (Rs. Crs.)	FY06	FY07	FY08	FY09
Equity Capital	138.0	286.0	286.0	286.0
Reserves	6,828.0	10,969.0	13,509.0	17,968.0
Shareholders Funds	6,966.0	11,255.0	13,795.0	18,254.0
Pref Shares by Subsidiary	-	-	-	-
Minority Interest	68.0	4.0	-	-
Total Liabilities	7,034.0	11,259.0	13,795.0	18,254.0
Fixed Assets	2,226.0	3,771.0	4,777.0	5,354.0
Investments	755.0	25.0	72.0	-
Current Assets				
Sundry Debtors	1,608.0	2,436.0	3,297.0	3,672.0
Loans & Advances	1,297.0	1,214.0	2,771.0	3,279.0
Cash & Bank Balance	3,429.0	5,871.0	6,950.0	9,695.0
Current Liabilities				
Sundry Creditors	934.0	1,469.0	1,912.0	2,004.0
Provisions	1,412.0	681.0	2,279.0	1,868.0
Net Current Assets	3,988.0	7,371.0	8,827.0	12,774.0
Deferred Tax Assets	65.0	92.0	119.0	126.0
Total Assets	7,034.0	11,259.0	13,795.0	18,254.0

Ratio Analysis				
YE March	FY06	FY07	FY08	FY09
OPM (%)	32.5%	31.6%	31.4%	33.2%
EBITDA (%)	33.9%	34.3%	35.6%	35.3%
PBIT (%)	29.3%	30.6%	32.0%	31.8%
PAT (%)	25.8%	27.7%	27.2%	27.1%
EPS (Rs.)	44.5	67.3	79.3	102.8
P/E (x)	58.1	38.4	32.6	25.2
P/BV (x)	10.2	13.1	10.7	8.1
BVPS (Rs.)	252.4	196.8	241.2	319.1
Market Cap (Rs. Crs.)	71,401.2	147,976.4	147,976.4	147,976.4
M Cap/Sales (x)	7.5	10.7	8.9	6.8
EV (Rs. Crs.)	67,972.2	142,105.4	141,026.4	138,281.4
EV/EBITDA (x)	23.1	33.7	28.3	20.6
EV/Sales (x)	7.5	10.7	8.9	6.8
ROCE (%)	39.7%	37.7%	38.7%	37.8%
RONW (%)	35.3%	34.2%	32.9%	32.2%
Debtors T/o Days	61.6	64.0	72.1	61.8
Advances T/o Days	49.7	31.9	60.6	55.2
Creditors T/o Days	35.8	38.6	41.8	33.7
Working Cap T/o Days	152.9	193.7	193.0	214.9
Fixed Assets T/o (Gross)	3.2	3.0	3.1	3.1
DPS (Rs.)	44.9	11.4	33.3	27.3
Dividend Payout (%)	100.7%	17.0%	41.9%	26.5%
Dividend Yield (%)	1.7%	0.4%	1.3%	1.1%

Cash Flow				
Particulars (Rs Crs)	FY06	FY07	FY08	FY09
Opening Cash & Bank	1,789.0	3,429.0	5,871.0	6,950.0
Profit After Tax	2,458.0	3,856.0	4,659.0	5,988.0
Less : Invt Income	(139.0)	(370.0)	(704.0)	(473.0)
Depreciation	437.0	514.0	598.0	761.0
Deferred Taxation	(22.0)	(27.0)	(22.0)	(28.0)
Others	(302.0)	(6.0)	(453.0)	0.0
Change in Working Cap	354.0	(941.0)	(377.0)	(1,202.0)
CF - Operating Activities	2,786.0	3,026.0	3,701.0	5,046.0
Change in Fixed Assets	(949.0)	(2,053.0)	(1,156.0)	(1,007.0)
Change in Investments	456.0	730.0	(47.0)	72.0
Investment Income	139.0	370.0	704.0	473.0
CF - Investing Activities	(354.0)	(953.0)	(499.0)	(462.0)
Increase in Equity	646.0	1,189.0	106.0	45.0
Changes in Borrowings	(94.0)	0.0	0.0	0.0
Dividend Paid	(1,412.0)	(756.0)	(2,225.0)	(1,574.0)
CF - Financing Activities	(792.0)	369.0	(2,123.0)	(1,529.0)
Net Change in Cash	1,640.0	2,442.0	1,079.0	3,055.0
Closing Cash & Bank Bal	3,429.0	5,871.0	6,950.0	9,695.0

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Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

Infosys Technologies

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